

CONSOLIDATED CANADIAN FARADAY LIMITED

AR47

1976 ANNUAL REPORT



CONSOLIDATED CANADIAN FARADAY LIMITED

Directors:

W. Clarke Campbell,
Member of the firm of Day, Wilson, Campbell,
Barristers and Solicitors.

Martin P. Connell,
President and Chief Executive Officer,
Conwest Exploration Company Limited.

John C. Lamacraft,
Executive Vice-President and Treasurer,
Conwest Exploration Company Limited.

Jules Loeb,
General Manager, Falcon Investments Limited.

Howard A. Masson,
Mining Executive.

C. Kelly O'Connor,
Vice-President Exploration and Development,
Conwest Exploration Company Limited.

Archibald B. Whitelaw, Q.C.
Barrister and Solicitor.

Officers:

W. Clarke Campbell, President.

Martin P. Connell, Executive Vice-President.

C. Kelly O'Connor, Vice-President, Exploration.

William M. O'Shaughnessy, Secretary-Treasurer.

**Registrar and
Transfer Agent:**

Guaranty Trust Company of Canada
Toronto, Montreal, Vancouver

Co-Transfer Agent:

Bank of Montreal Trust Company
New York, N.Y.

Auditors:

Thorne Riddell & Co.
Toronto, Ontario

Head Office:

10th Floor, 85 Richmond Street West, Toronto, Ontario

TO THE SHAREHOLDERS

Your directors are pleased to present the annual report for the year ended December 31, 1976. Included are the consolidated financial statements of the company, the auditors' report and the financial statements of Madawaska Mines Limited for the fiscal period ending on that date. Also enclosed are notice of annual meeting, information circular and proxy statement and form of proxy.

With regret we report the death of Mr. R. P. Mills, the Chairman of the Board and long time director of the Company. Mr. Mills' contribution to the affairs of your Company will be greatly missed.

Mineral Operations

In September, 1976 Madawaska Mines Limited, in which your company has a 49% interest, resumed production of uranium oxide at the former Faraday mine at Bancroft, Ontario. Due to the usual start-up problems encountered, the production target has not yet been reached.

In June, 1976 the Maskwa East and West ore zones in Manitoba were exhausted and all mining and milling was terminated. Your company, acting as a contractor, had carried out these operations as and from February 1, 1975 on behalf of Falconbridge Nickel Mines Limited. As a result of Falconbridge's decision to terminate the lease on the facilities, liquidation of the buildings, plant and equipment at both Dumbarton and Werner Lake was initiated and is continuing.

Petroleum and Natural Gas Interests

Production from the petroleum properties of I.E.C. Energy of Kentucky Inc. continued throughout its year at a reduced rate. In February, 1977 these holdings were sold to an unaffiliated group for \$175,000 U.S.

Modest revenues were received from your company's interest in gas production in the Redcliffe area of Alberta.

Exploration

The holdings of Hydra Explorations Limited and Massval Mines Limited, companies in which your company holds a substantial interest, were maintained in good standing. Relatively little exploration work was performed by these companies in the year in review.

The company has maintained its interest in the Greenarctic Consortium. During the year the Consortium reported no significant activity.

During the year your company participated in two exploration programs managed by Conwest Exploration Company Limited: a mineral general exploration program in which your company has a 25% interest has a duration of three years, and a five-year Canadian uranium exploration joint venture, of which your company's participation is 5%.

Other Interest, Lines of Business

In Fort Meyers, Florida, Faraday continues to operate a 51-suite apartment complex. During 1976 the company exercised its option to purchase the property on which its apartments are located for \$150,000 U.S.

Percentages of revenue for lines of business for each of the past two fiscal years are as follows:

	1976	1975
	%	
Mineral Operations	18	63
Oil and Gas Interests	35	20
Real Estate and Investment Income	47	17

Management Discussion, Analysis

In 1972 revenue decreased as the Werner Lake mine was being phased out, resulting in a lower grade of ore and high mining costs. The mine was closed in September of that year.

In 1973 the continued decline of Dumbarton Mines Limited (50% owned by Faraday) contributed to the company's overall loss. In 1974 the company endeavoured to mine and mill the Maskwa East and West ore zones but, due to metallurgical problems, the operation was uneconomical. Heavy development expenses to prepare these orebodies contributed to the negative picture.

In 1975 the company enjoyed a modest profit, primarily because of the receipt of prepayments on a uranium sales contract. Madawaska Mines Limited paid to your company a total of \$1,441,000 by way of an agency and management fee. The agency fee is non-recurring.

In 1976 the company engaged in extensive outside exploration by way of participation in two exploration programs. This, together with the reduced revenue due to termination of milling operations contributed to the loss for the year.

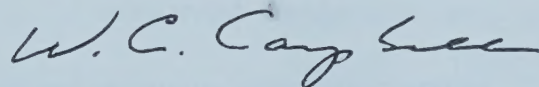
Price Range of Common Shares

	<u>1976</u>	<u>1975</u>
First Quarter . . .	\$3.85 - 2.50	\$1.39 - 0.70
Second Quarter .	4.40 - 3.50	1.38 - 1.18
Third Quarter . .	4.15 - 3.40	2.85 - 2.15
Fourth Quarter . .	3.65 - 2.40	2.95 - 2.15

For the past two fiscal years the company has paid no dividends on its common stock.

Copies of the company's Form 10-K report to the Securities and Exchange Commission are available without charge upon request. Please write: Secretary, Consolidated Canadian Faraday Limited, 10th Floor, 85 Richmond Street West, Toronto, Ontario M5H 2G1.

On behalf of the Board,



W. CLARKE CAMPBELL,
President.

Toronto, Ontario,
May 31, 1977.

CONSOLIDATED CANADIAN FARADAY LIMITED*(Incorporated under the laws of Ontario)***CONSOLIDATED BALANCE SHEET****AS AT DECEMBER 31, 1976 and 1975****ASSETS**

	1976	1975
CURRENT ASSETS		
Cash and short-term deposits	\$1,673,326	\$1,511,956
Accounts receivable		
Re Falconbridge Nickel Mines Limited operation (note 5)		709,520
Other	214,177	25,843
Supplies and other prepaid expenses	18,730	16,595
	<u>1,906,233</u>	<u>2,263,914</u>
INVESTMENTS (notes 2 and 5)		
Shares in and advances to effectively controlled companies	306,983	305,133
Investment in other companies	435,528	300,466
	<u>742,511</u>	<u>605,599</u>
FIXED ASSETS (notes 3, 4 and 8)		
Land, buildings, plant and equipment, at cost	787,875	4,236,399
Less accumulated depreciation	252,679	3,824,903
	535,196	411,496
Mining claims, rights, properties and leases, at cost	392,401	392,401
Interest in petroleum and natural gas leases, at cost less depletion	162,056	274,644
	<u>1,089,653</u>	<u>1,078,541</u>
OTHER ASSETS		
Mine equipment and supplies, at written down value (note 5)	60,000	289,529
Loan costs less amortization	12,053	
Advances receivable		124,660
Mortgage receivable	19,264	21,264
	<u>91,317</u>	<u>435,453</u>
	<u>\$3,829,714</u>	<u>\$4,383,507</u>

Approved by the Board:

W. C. CAMPBELL, Director.

J. C. LAMACRAFT, Director.

LIABILITIES

CURRENT LIABILITIES	1976	1975
Accounts payable and accrued liabilities		
Re Falconbridge Nickel Mines Limited operation (note 5)		\$ 685,463
Other	\$ 148,560	223,031
Current portion of long-term debt	8,430	
	<u>156,990</u>	<u>908,494</u>
LONG-TERM DEBT		
Petroleum production and other payments (note 4)	58,627	98,376
10% Mortgage payable \$3,999 U.S. monthly including principal and interest, maturing November 1, 1986	379,685	
	<u>438,312</u>	<u>98,376</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6)		
Authorized — 5,000,000 shares of no par value		
Issued — 3,558,800 shares	6,665,997	6,665,997
CONTRIBUTED SURPLUS	1,506,061	1,506,061
	<u>8,172,058</u>	<u>8,172,058</u>
DEFICIT	4,937,646	4,795,421
	<u>3,234,412</u>	<u>3,376,637</u>
	<u>\$3,829,714</u>	<u>\$4,383,507</u>

Commitments and contingencies (note 8)

AUDITORS' REPORT

To the Shareholders of Consolidated Canadian Faraday Limited

We have examined the consolidated balance sheet of Consolidated Canadian Faraday Limited as at December 31, 1976 and 1975 and the statements of income, deficit and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
March 11, 1977

THORNE RIDDELL & CO.
Chartered Accountants

CONSOLIDATED CANADIAN FARADAY LIMITED

CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31, 1976 and 1975

	1976	1975
Production of concentrates		\$ 398,113
Rental and other income	\$ 324,891	300,609
Income from petroleum and natural gas properties	172,887	171,418
	497,778	870,140
Operating expenses	456,992	1,105,983
	40,786	(235,843)
Depreciation and depletion	160,898	229,225
	120,112	465,068
Outside exploration	250,676	85,056
Development expenditures		219,944
Provision for decline (increase) in value of investments (note 2(d))	(169,122)	157,919
	81,554	462,919
Income of effectively controlled companies	37,350	26,388
Gain (provision for loss) on cessation of mining operations	22,603	(224,000)
	59,953	(197,612)
	21,601	660,531
Loss before undernoted items	141,713	1,125,599
Income from uranium contract agency and management fee (note 3) ..		1,441,000 ✓
Gain on sale of shares of subsidiary		80,584
		1,521,584
Income taxes of subsidiary	512	3,500
	512	1,518,084
NET INCOME (LOSS) (note 7)	\$ (142,225)	\$ 392,485
EARNINGS (LOSS) PER SHARE	(4)¢	11¢

CONSOLIDATED STATEMENT OF DEFICIT

YEARS ENDED DECEMBER 31, 1976 and 1975

	1976	1975
DEFICIT AT BEGINNING OF YEAR	\$4,795,421	\$5,187,906
Net income (loss)	(142,225)	392,485
DEFICIT AT END OF YEAR	\$4,937,646	\$4,795,421

CONSOLIDATED CANADIAN FARADAY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 1976 and 1975

WORKING CAPITAL DERIVED FROM	1976	1975
Operations		
Net income		\$ 392,485
Items not involving working capital		276,963
		<u>669,448</u>
Net book value of assets transferred to Madawaska Mines Limited (note 3)		21,023
Mortgage payable	\$ 389,916	
Issue of shares of capital stock		206,250
Reclassification of advances receivable	124,660	
Reduction of advances to Dumbarton Mines Limited, net	75,560	16,015
Sale of shares of subsidiary		500,000
Sale of investments		251,321
Sale of mine equipment and supplies	228,369	
Reduction of mortgage receivable	2,000	2,012
	<u>820,505</u>	<u>1,666,069</u>
 WORKING CAPITAL APPLIED TO		
Operations		
Loss	142,225	
Items not involving working capital	44,762	
	<u>186,987</u>	
Reclassification of mining supplies		183,974
Purchase of investments	6,000	77,023
Additions to land, buildings, plant and equipment	149,332	156,214
Loan costs	12,896	
Reduction of long-term debt	48,845	53,569
Purchase of and additions to interest in petroleum and natural gas leases	22,622	17,312
	<u>426,682</u>	<u>488,092</u>
INCREASE IN WORKING CAPITAL	393,823	1,177,977
WORKING CAPITAL AT BEGINNING OF YEAR	1,355,420	177,443
WORKING CAPITAL AT END OF YEAR	<u>\$1,749,243</u>	<u>\$1,355,420</u>

CONSOLIDATED CANADIAN FARADAY LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1976 and 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

These financial statements include the accounts of the following wholly-owned subsidiary companies: Bancroft Holdings Limited, Intercontinental Energy Corporation (sold in 1975, note 4), I.E.C. Energy of Kentucky, Inc., (incorporated 1974, note 4), Farida, Inc., and Faramines, Inc.

(b) Investments

Effectively controlled companies

These investments are valued on a basis of accounting which reflect changes in equity since January 1, 1973.

Other companies

Investments are valued at not in excess of cost.

(c) Fixed assets

Cost

(i) Land, buildings, plant and equipment

All land, buildings, plant and equipment are stated at cost.

(ii) Mining properties

Mining properties are recorded at cost. When the properties are considered to be permanently uneconomical they are written off.

Depreciation and depletion

(i) Depreciation

The net book value of the mine assets became fully provided for in 1974.

Other buildings, plant and equipment, consisting mainly of the Florida real estate operation of Farida, Inc., are being depreciated on a straight line basis over their estimated useful life.

(ii) Depletion

At December 31, 1976 mining claims, rights, properties and leases of \$392,401 have been deferred with the intention that they should be amortized by charges against income from future operations, and the applicable cost of participation in petroleum and natural gas projects is being amortized against related income from operations (note 4). The recovery of these costs is dependent, therefore, upon the development of economic operations.

(d) Exploration and development expenditures

Exploration and development expenditures relating to producing properties are written off as incurred. Development expenditures on non-producing properties are deferred until production commences or the property is considered to be permanently uneconomical. When production commences, these expenditures are then written off over the expected remaining life of the mine. When a property is considered to be permanently uneconomical the related development expenditures are written off.

Outside exploration is written off as incurred.

2. INVESTMENTS

(a) Investment in effectively controlled companies

	Dumbarton Mines Limited (note 5)	Hydra Explorations Limited	Massval Mines Limited	Total
Percentage ownership	50%	36%	44%	
Balance at January 1, 1975	\$ 151,988	\$ 155,346	\$ 97,954	\$ 405,288
Changes during 1975				
Acquisition of shares			50,000	50,000
Share of income	24,555	1,833		26,388
	176,543	157,179	147,954	481,676
Increase in allowance for decline in value (note 2(d)) ..	160,528			160,528
Reduction of advances (net)	16,015			16,015
	(176,543)			(176,543)
Balance at December 31, 1975	Nil	157,179	147,954	305,133
Changes during 1976				
Share of income	35,500	1,850		37,350
	35,500	159,029	147,954	342,483
Decrease in allowance for decline in value (note 2(d))	40,060			40,060
Reduction of advances (net)	(75,560)			(75,560)
Balance at December 31, 1976	Nil	\$ 159,029	\$ 147,954	\$ 306,983

Included in the shares of Massval Mines Limited are 691,037 escrowed shares

(b) Investment in other companies, not in excess of cost

	1976	1975
Shares in other companies (quoted market value 1976, \$49,000; 1975, \$42,000)	\$ 49,005	\$ 42,575
Shares and debenture of Madawaska Mines Limited (note 3)	21,023	21,023
Shares of Prairie Potash Mines Limited	180,000	180,000
Shares and convertible debenture of Henrietta Mines Limited	185,500	56,868
	<u>\$ 435,528</u>	<u>\$ 300,466</u>

Any realization on the investment in Prairie Potash Mines Limited and Henrietta Mines Limited is dependent upon successful financing and commercial exploitation of their resource interests.

Included in the quoted market value is \$5,250 (\$4,100 in 1975) representing escrowed shares which have been valued at 50% of the quoted market value of free shares

(c) Investment in companies for which there is a quoted market value includes instances of large share holdings where quoted market values are not necessarily indicative of amounts which might be realized if the shares were to be sold.

(d) Provision for decline (increase) in value of investments provided during the year is made up as follows:

	1976	1975
Dumbarton Mines Limited	\$ (40,060)	\$ 160,528
Other investments	(129,062)	(286,444)
	(169,122)	(125,916)
Loss on sale of investments		283,835
	<u>\$ (169,122)</u>	<u>\$ 157,919</u>

3. MADAWASKA MINES LIMITED (BANCROFT, ONTARIO)

During 1975, pursuant to the terms of an agreement with Federal Resources Corporation dated September 8, 1966, as amended, Faraday transferred its Bancroft (uranium) property to Madawaska for a 49% interest therein. Such interest consists of 490 of the 1,000 issued shares of Madawaska and a \$1,000,000 debenture payable out of net cash flow as defined in the agreement.

This investment is carried at the net book value of Faraday's Bancroft assets contributed. In prior years depreciation of \$6,234,333 and depletion of \$409,609 had been provided in respect thereof.

During 1975 the company derived income from management fees and a non-recurring agency agreement with Madawaska. No income was derived in 1976.

4. INTEREST IN PETROLEUM AND NATURAL GAS LEASES:

Details of interests held are as follows:

	1976	1975
Petroleum and natural gas leases held by I.E.C. Energy of Kentucky, Inc., Kentucky, U.S.A.	\$ 709,352	\$ 703,946
Less depletion	597,148	464,644
	<u>112,204</u>	<u>239,302</u>
Participation in drilling of wells on Faraday's approximately 11% interest in certain natural gas leases in the Redcliffe area of south-eastern Alberta	54,419	37,202
Less depletion	4,567	1,860
	<u>49,852</u>	<u>35,342</u>
	<u>\$ 162,056</u>	<u>\$ 274,644</u>
The properties held in Kentucky, U.S.A. give rise to the following liabilities:		
Petroleum production payments (to be paid out of proceeds from production) ..	<u>\$ 58,627</u>	<u>\$ 98,376</u>

On December 31, 1974 the Kentucky properties of Intercontinental Energy Corporation were sold to I.E.C. Energy of Kentucky, Inc., a newly formed subsidiary company leaving Intercontinental with assets only in Alberta and Saskatchewan. During 1975 all of the issued and outstanding shares of Intercontinental Energy Corporation were sold to an unaffiliated company for \$500,000 cash. Subsequent to December 31, 1976 all of the issued and outstanding shares of I.E.C. Energy of Kentucky, Inc. were sold for \$175,000 U.S.

5. WERNER AND BIRD LAKE OPERATIONS

The economic life of the orebody of Dumbarton Mines Limited (Dumbarton) ended in December, 1974 and up to January 31, 1975 Consolidated Canadian Faraday Limited (Faraday) used the Dumbarton facility to gain access to and crush ore from an adjacent property leased by it directly from Maskwa Nickel Chrome Mines Limited (Maskwa) (a subsidiary company of Falconbridge Nickel Mines Limited) (Falconbridge).

As of February 1, 1975, Faraday ceased mining and milling ore from the property of Maskwa for its own account and entered into a new arrangement whereby the economic risk of the operation was assumed by Falconbridge and through Dumbarton, Faraday became operator of the venture at a fixed fee based primarily on tonnage mined and milled. As part of this arrangement the milling facilities and infrastructure at Werner Lake were leased to Dumbarton with an option to purchase.

Falconbridge terminated the lease effective June 30, 1976 and as of that date all mining operations ceased. The option to purchase was similarly terminated.

As provided for in the agreement Faraday undertook to settle all liabilities outstanding at January 31, 1975 including any liabilities for Manitoba Mining Tax arising as a result of operations to that date. All moveable machinery, equipment and supplies of Dumbarton were transferred to Faraday at a value accepted by Maskwa and reduced the indebtedness of Dumbarton. Proceeds from subsequent disposals of buildings, plant and fixed equipment will similarly reduce the indebtedness.

With both operations having ceased, disposal of mining and milling assets has been carried out from July, 1976.

6. CAPITAL STOCK

Options on 137,500 shares at \$1.50 per share which were outstanding under incentive option plans for key officers and personnel at December 31, 1974 were exercised during 1975.

7. INCOME TAXES

The company has sufficient depreciation, depletion, exploration and development expenditures available to offset otherwise taxable income.

8. COMMITMENTS AND CONTINGENCIES

(a) Agreements with Conwest Exploration Company Limited

The company participates in exploration programmes managed by Conwest as follows:

- (i) A 25% participation in a mineral exploration programme for a period of three years commencing January 1, 1976 at a maximum annual cost to the company of \$375,000 subject to the company's right to elect to participate further.
- (ii) A 5% participation in a uranium exploration programme. The company's annual commitment during the primary stage is \$75,000 for a total of \$375,000 to December 31, 1980. Under the terms of the agreement the company is entitled to receive 2½% of direct expenditures incurred and a gross royalty of ¾% of production being part of the management fee and gross royalty accruing to Conwest. If all expenditures contemplated under the primary phase are incurred the company's portion of the management fee would be \$187,500. The agreement provides for further participation if warranted by the results of the primary phase.

(b) Guarantee

The company has guaranteed certain debts of Dumbarton Mines Limited (see note 5).

(c) Lease purchase option

During 1976 Farida, Inc. exercised its option to purchase the property on which its apartments are located for \$150,000.

(d) Long term debt

The principal amount repayable in U.S. dollars in each of the next five years is as follows:

1977	\$ 8,439	1980	\$ 11,378
1978	9,323	1981	12,569
1979	10,299		

9. OTHER STATUTORY INFORMATION

Remuneration of directors and senior officers (as defined by The Business Corporations Act) amounts to \$152,000 (\$151,000 in 1975).

SUMMARY OF OPERATIONS

	1976	1975	1974	1973	1972
Revenues	\$ 497,778	\$ 870,140	\$ 1,276,488	\$ 587,067	\$1,122,702
Operating Expenses other than below ...	595,287	1,559,208	2,051,739	470,569	1,518,910
	(97,509)	(689,068)	(775,251)	116,498	(396,208)
Share of losses of effectively controlled companies	(37,350)	(26,388)	171,494	168,079	—
Outside exploration	250,676	85,056	67,096	128,423	135,259
Write-down of investment in and advances to other companies	(169,122)	157,919	215,968	157,181	215,436
Development expenditures	—	219,944	987,315	—	—
	44,204	436,531	1,441,873	453,683	350,695
Income (loss) before undernoted items ..	(141,713)	(1,125,599)	(2,217,124)	(337,185)	(746,903)
Income from uranium contract agency and management fee		1,441,000			
Gain on sale of shares of subsidiary		80,584			
		1,521,584			
Income taxes of subsidiary	512	3,500	4,500	7,500	
	512	1,518,084	4,500	7,500	
NET INCOME (LOSS)	\$ (142,225)	\$ 392,485	\$ (2,221,624)	\$ (344,685)	\$ (746,903)
EARNINGS (LOSS) PER SHARE	\$ (.04)	\$.11	\$ (.65)	\$ (.10)	\$ (.22)
Common shares outstanding	3,558,800	3,558,800	3,421,300	3,421,300	3,421,300

MADAWASKA MINES LIMITED

STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31	
	1976	1975
CURRENT ASSETS		
Cash	\$ 74,960	\$ 203,794
Accounts receivable	1,748,164	678
Inventories:		
Materials and supplies	494,942	14,601
Broken ore inventory	115,872	
Concentrate in process	158,815	
	769,629	14,601
Prepaid expenses and other current assets	21,905	24,647
TOTAL CURRENT ASSETS	2,614,658	243,720
PROPERTY, PLANT, AND EQUIPMENT		
Land, mining claims, and leases	2,518,428	2,515,130
Buildings	1,596,408	500,000
Equipment	3,713,015	143,476
Construction in progress	659,108	2,042,396
	8,486,959	5,201,002
Less allowances for depreciation and depletion	261,180	4,195
	8,225,779	5,196,807
DEFERRED CHARGES — Note B		
Organization costs, less amortization of \$2,476 in 1976	62,446	66,450
Management fee, less amortization of \$13,614 in 1976	386,386	400,000
Agency contract, less amortization of \$144,804 in 1976	3,355,196	3,500,000
Deferred mine development costs, less amortization of \$158,418 in 1976 ..	5,000,747	2,281,021
	8,804,775	6,247,471
	<u>\$19,645,212</u>	<u>\$11,687,998</u>

AUDITORS' REPORT

Stockholders and Board of Directors, Madawaska Mines Limited, Bancroft, Ontario

We have examined the statements of financial position of Madawaska Mines Limited as of December 31, 1976, and December 31, 1975, and the related statements of changes in financial position for the years then ended, and the statement of earnings and retained earnings for the four months ended December 31, 1976. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Toronto, Ontario
March 14, 1977

LIABILITIES AND STOCKHOLDERS' EQUITY

	December 31	
	1976	1975
CURRENT LIABILITIES		
Note payable to bank	\$ 1,850,000	
Bank advances	445,607	
Trade accounts payable	348,940	\$ 135,095
Other payables and accrued liabilities	657,976	221,191
Current portion of long-term debt	1,006,282	
TOTAL CURRENT LIABILITIES	4,308,805	356,286
LONG-TERM DEBT		
Debentures payable — Note C	2,831,712	2,831,712
Note payable to bank, less current portion of \$1,000,000 — Note D	5,100,000	1,600,000
Other notes, less current portion of \$6,282 — Note D	246,880	
	8,178,592	4,431,712
DEFERRED INCOME — Note E	3,900,000	3,900,000
DEFERRED INCOME TAXES — Note A	45,000	

STOCKHOLDERS' EQUITY

Common Stock, no par value:

Authorized, issued, and outstanding 1,000 shares	3,000,000	3,000,000
Retained earnings	212,815	
	3,212,815	3,000,000
	<u>\$19,645,212</u>	<u>\$11,687,998</u>

See notes to financial statements

As discussed in Note B to the financial statements, the Company recovers the costs of deferred charges over the life of the ore reserves. At present, there may not be sufficient economically recoverable ore reserves to amortize these costs and, therefore, the recovery of these costs is deemed uncertain at this time.

In our opinion, subject to the realization of the costs of deferred charges as explained in the preceding paragraph, the financial statements referred to above present fairly the financial position of Madawaska Mines Limited at December 31, 1976, and December 31, 1975, the changes in its financial position for the years then ended, and the results of its operations for the four months ended December 31, 1976, in conformity with generally accepted accounting principles applied on a consistent basis.

ERNST & ERNST
Chartered Accountants

MADAWASKA MINES LIMITED

STATEMENT OF EARNINGS AND RETAINED EARNINGS FOUR MONTHS ENDED DECEMBER 31, 1976

Revenues:

Concentrate sales	\$3,180,758
Interest and other income	<u>7,356</u>
	3,188,114

Cost and expenses:

Cost of mined ore	\$1,515,044	
Cost of milled ore	740,249	
General and administrative expenses	379,877	
Interest expense	282,129	
Mining taxes	<u>13,000</u>	2,930,299
INCOME BEFORE INCOME TAXES		257,815
Income taxes — deferred		<u>45,000</u>
NET INCOME AND RETAINED EARNINGS AT END OF PERIOD		<u>\$ 212,815</u>
Earnings per share		<u><u>\$ 212.82</u></u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

Years ended December 31, 1976, and December 31, 1975

NOTE A — SUMMARY OF ACCOUNTING POLICIES

Inventories: Broken ore and concentrate in process inventories are carried at cost (first-in, first-out method) and are not in excess of market values. Material and supplies inventories are valued using the average cost method.

Property, Plant, and Equipment: Property, plant, and equipment are stated at cost to the Company. Depreciation of plant and equipment is computed on the straight-line method over the estimated useful lives of the respective assets.

Deferred Income Taxes: Deferred income taxes arise principally from timing differences in expensing certain capital costs for tax purposes at rates in excess of amortization, depletion, and depreciation for financial statement purposes.

NOTE B — DEFERRED CHARGES

At December 31, 1976, the recovery of costs in deferred charges cannot be assured. Costs to be recovered through future sales are as follows:

Organization costs consist of legal and professional charges incurred in the formation of the Company.

A management fee for services provided, less amortization of \$13,614 at December 31, 1976, was:

Federal Resources Corporation	\$ 197,057
Consolidated Canadian Faraday Limited	189,329
	<u><u>\$ 386,386</u></u>

Under the terms of an Agency Agreement dated April 16, 1975, the Company agreed to pay \$3,500,000 in consideration of services performed in securing a contract for sale of uranium concentrates to an agency of the government of the Republic of Italy. The distribution, less amortization of \$144,804 at December 31, 1976, was:

Federal Resources Corporation	\$2,164,102
Consolidated Canadian Faraday Limited	<u>1,191,094</u>
	<u>\$3,355,196</u>

Costs related to deepening the shaft, creating stations, and pockets and similar development work are being capitalized. Amortization of these expenses is based on pounds of U₃O₈ in reserve and will be expensed to operations as these pounds are mined and processed.

The Company has also deferred all general and administrative costs prior to September 1976 when commercial operations commenced.

At December 31, 1976, deferred mine development, less amortization of \$158,418, was:

Expenses incurred in the years 1967 to 1975 by Can-Fed Resources Corporation (a wholly-owned subsidiary of Federal Resources Corporation)	\$1,743,846
Expenses incurred by the Company from April 1975 to December 31, 1976:	
Underground	\$2,158,102
General	388,190
Administrative	<u>710,609</u>
	<u>3,256,901</u>
	<u>\$5,000,747</u>

Company engineers and geologists consider that economically recoverable ore reserves of the property are more than adequate to amortize the capital investments and deferred charges recorded on the Company's books.

NOTE C — DEBENTURES PAYABLE

The debentures are payable to:

Federal Resources Corporation	\$1,831,712
Consolidated Canadian Faraday Limited	<u>1,000,000</u>
	<u>\$2,831,712</u>

The debentures are non-interest bearing and will be repayable subject to the priority of the bank loan agreement as set out in Note D, based on a formula linked to the Company's cash flow.

NOTE D — NOTES PAYABLE

Under a loan agreement dated July 1, 1975, a Canadian bank has granted a \$6.1 million term line of credit to finance the rehabilitation of the mill and the development work necessary to put the mine into operation. The loan agreement was signed by both Company and its parent, Federal Resources Corporation.

At December 31, 1976, the Company had drawn \$6,100,000 from this source. Interest is payable at prime rate plus 1½% and advances are repayable in minimum annual installments of \$1,000,000 over 5 years beginning on October 1, 1977, and thereafter on June 15 of the years 1978 to 1981.

As security for the outstanding notes payable, the Company has issued to the bank 15% per annum demand debentures dated August 1, 1975, and November 12, 1976, for \$13.6 million. These debentures are secured by a fixed and floating charge on all of the assets of the Company.

The Company has assumed certain mortgage loans on housing for employees. Interest rates range from 11½%-13½% per annum.

NOTE E — DEFERRED INCOME

The Company has taken over responsibility for the terms of an agreement executed in April 1975 by Federal Resources Corporation and Consolidated Canadian Faraday Limited, to sell up to 26,000,000 pounds of uranium concentrate to an agency of the government of the Republic of Italy.

The contract provided that the customer make prepayments totalling \$3,900,000 to be applied, under certain circumstances, to uranium concentrate deliveries. This prepayment has been recorded as deferred income and is to be recognized as revenue in accordance with contract provisions.

MADAWASKA MINES LIMITED

STATEMENTS OF CHANGES IN FINANCIAL POSITION

SOURCE OF FUNDS	Year Ended December 31	
	1976	1975
From operations:		
Net income	\$ 212,815	
Charges to income not requiring current outlay of working capital:		
Depreciation and depletion	256,985	
Amortization of deferred charges	341,590	
Deferred income taxes	45,000	
TOTAL FROM OPERATIONS	856,390	
Issue of Common Stock		\$ 2,999,999
Debentures		2,831,712
Increase in notes payable	3,746,880	1,600,000
Payment under sales agreement		3,900,000
Decrease in deferred charges	1,528	
	4,604,798	11,331,711
USE OF FUNDS		
Purchase of assets from stockholders:		
Federal Resources Corporation		1,992,560
Consolidated Canadian Faraday Limited		3,000,000
Purchase of land and mining claims and leases	3,298	15,130
Purchase of equipment	813,852	3,988
Construction and rehabilitation of plant and equipment	2,468,807	2,008,666
Increase in deferred charges		3,966,450
Increase in deferred mine development costs	2,900,422	457,484
	6,186,379	11,444,278
DECREASE IN WORKING CAPITAL	\$ 1,581,581	\$ 12,567
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increase (decrease) in current assets:		
Cash	\$ (128,834)	\$ 203,793
Accounts receivable	1,747,486	678
Inventories	755,028	14,601
Prepaid assets and other current assets	(2,742)	24,647
	2,370,938	243,719
Increase in current liabilities:		
Note payable to bank	1,850,000	
Bank advances	445,607	
Trade accounts payable	213,845	135,095
Other payables and accrued liabilities	436,785	221,191
Current portion of long-term debt	1,006,282	
	3,952,519	356,286
DECREASE IN WORKING CAPITAL	\$ 1,581,581	\$ 112,567

See notes to financial statements

still neg. stat. price &

Quebec ^{Hydro} price, where 42.74, result
470,000

annual delivery to stat.

100,000 lbs. of 1978 delivery

world market value

Jan. - se

Feb. purchase - hi price

Mar. - neg.

Apr. - submit to report the change

by delivery world market value

- if change

- down by Feb 15

of 78 delivery - various relative given
change again by Mon Aug.

- by mid Aug - to determine change of
common

AECB-

any delivery change - as product produced

paying 300 32.10 Cdn
= 30.50 (US)

- under white pine d
return

over 20,000 lb. produced

- delinquent

\$

M. land debt 8.25 - ~~mile~~

incl. ~~at~~ ^{pr} settlement.

- answer to ~~Sept 17~~
end of Sept. - delinquent 78 pr

Cost 65,000 lb & more
max. position - 1978

April 15, date of interest
Annex B. 2

~~expect~~ Mar 10, date proceeds

Cdn utilities paying
\$
40-42 a lb



CONSOLIDATED CANADIAN FARADAY LIMITED
1976 ANNUAL REPORT